University Of Utah Endowment Pool
Investment Guidelines

I. Purpose

To establish university guidelines and strategies related to the investment of the Endowment Pool (the “Pool”) and reporting of such investments.

The goal for the management of endowment funds at an academic institution is to ensure that the endowment provides future students and faculty with the same level of spending resources (adjusted for inflation), as current students and faculty receive, while also providing a stable and increasing cash flow to fund current operating budgets. In order to accomplish this, endowment funds of the University of Utah (the “University”) are invested under the total return concept of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA was adopted into state law under Utah Code 51-08 and it is the governing regulation for the University’s endowment funds.

In addition, endowment funds specifically serve two purposes for the University. First, endowment funds provide financial flexibility to the University by allowing the Health Sciences and the Main Campus Senior Administrators and the Academic Deans to strategically manage their colleges and departments to ensure the University continues to achieve its mission of leadership as a research institution on a national level. Second, due to the decentralized private funding structure of the University, endowment funds play a sizeable role in funding scholarships, fellowships, and current initiatives for particular departments.

The **Pool** was established by the University as a pooled fund for the long term investment of endowment funds. As determined by the University’s spending policy, a percentage of the market value of the endowment funds is distributed quarterly to provide funding for current operations as approved by the President of University.

II. References

A. Uniform Prudent Management of Institutional Funds Act (UPMIFA), Title 51, Chapter 08, Utah Code Annotated 2007.

B. Utah State Board of Regents Investment Policy (R541)

III. Definitions

Endowment funds - As used in these guidelines, “endowment funds” include true endowment funds, term endowment funds, and quasi-endowment funds.

True endowment funds - As used in these guidelines, “true endowment funds” (also known as “permanent endowment funds”) are institutional funds with respect to which a donor has stipulated, as a condition of the gift, that the gift is to be maintained inviolate and in perpetuity. True endowment funds are to be invested for the purpose of producing present and future income that may, also by donor stipulation, be expended or reinvested with the original gift. The principal or corpus of the true endowment must be maintained intact. Income that may be expended according to the donor's stipulation may be unrestricted or restricted as to the purpose for which it is expended, the time it may be expended, or both. Income that may not be expended but rather added to the principal or corpus in accordance with the donor's stipulation assumes, or takes on, the same restrictions as the original gift.

Term endowment funds – Term endowment funds are similar to true endowments, except that, upon the passage of a stated period (or time) or the occurrence of a particular event, all or part of the donation may be expended. True and term endowments are collectively referred to as "donor-restricted" transactions.

Quasi-endowment funds - Quasi-endowment funds are institutional funds that the governing board (in this case, the University's Board of Trustees [the "Board"]), rather than the donor, has determined are to be retained and managed like an endowment. Principal and income of these funds may be utilized at the discretion of the governing board and are set aside to function as an endowment and may be unrestricted or restricted as to the purpose or time of expenditure by any agent outside the institution.

Investment Implementation Strategy – The Investment Implementation Strategy is a component statement of the Endowment Pool Investment Guidelines that shall further describe qualitative and quantitative measures to implement strategies and tactics, asset allocations, performance measurements and expectations to prudently invest endowment funds to sustain the University's current and future needs. The Investment Implementation Strategy is subject to change.

IV. Investment Guidelines

The following standard of care shall apply to the investment of the Pool by the University:

1) Standard of Care

   a) The University shall invest and manage the Pool as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowment funds. In satisfying this standard, the University shall exercise reasonable care, skill, and caution.

   b) The University's investment and management decisions respecting individual assets must be evaluated, not in isolation, but in the context of the endowment portfolio as a whole, and as a part of an overall investment strategy having risk and return objectives reasonably suited to endowment funds.

c) The University shall conduct appropriate due diligence and make a reasonable effort to verify facts relevant to the investment and management of endowed assets.

d) The University shall consider at least the following, which may be relevant to the endowment(s) and/or its beneficiaries, in investing and managing endowment assets:

   i) General economic conditions,

   ii) The possible effects of inflation or deflation,

   iii) The role that each investment or course of action plays within the Pool and if it is consistent with the Pool's investment strategy,

   iv) The expected total return from income and the appreciation of capital, and

   v) Needs for liquidity, regularity of income, and preservation and/or appreciation of capital.

e) The University shall not consider previous or potential gifts from donors and/or political interests relating to the University when conducting due-diligence and considering investment opportunities.

2) Delegation of Investment and Management Functions

The University may delegate investment and management functions that a prudent investor could properly delegate under the circumstances. The University shall exercise reasonable care, skill, and caution in:

a) Selecting an external investment consultant (the term investment consultant shall be considered the University's investment consultant and either as singular or plural and include the term investment advisor(s)), investment manager(s) or fund administrators.

b) Establishing the scope and terms of the delegation, consistent with the purposes and terms of the endowment. Periodically review the investment consultant, and/or investment manager(s) actions in order to monitor their fiduciary duty, compliance with the terms of the delegation, and investment performance;

c) So long as the University complies with Article IV, Investment Guidelines subsection-(2) requirements; it shall not be liable to the endowment(s) and/or the beneficiaries for the decisions or actions of the investment consultant, and/or investment manager(s) to whom a function was given.

3) Costs

In investing and managing the Pool, the University may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills of designated University administration and/or investment consultant and/or investment manager(s) to whom investment management functions were delegated.

V. Delegation of Responsibilities

1) Responsibilities of the Board of Trustees

a) The Board has the following responsibilities:

i) Ultimate fiduciary responsibilities for the Pool.

ii) Approve the University of Utah Investment Policy, which includes the Endowment Pool Guidelines which includes the Investment Implementation Strategy (Article XVIII), to ensure appropriate governance is in place and effectively implemented.

iii) The Board shall review and approve the monthly investment report and quarterly performance report of the Pool that have been submitted to the Board.

iv) Perform the review as described in Article XIV of these guidelines.

b) The Board shall delegate to the Investment Advisory Committee the responsibility for the ongoing monitoring of the Pool.

c) The Board shall delegate the responsibilities listed below to the Senior Chief Administrator & Chief Financial Officer, the Vice President for Administrative Services and the Associate Vice President/Chief Investment Officer (CIO), (collectively defined as Senior Investment Officers), who may act on the advice from the Investment Advisory Committee. In delegating such responsibilities the Board will not ordinarily meet with investment managers hired by the University.

i) Invest and reinvest the funds of the Pool.

ii) Contract with independent investment consultant, investment manager(s), and other fund administrators for the Pool.

iii) Subscribe for an interest as a limited partner or shareholder of a domestic or offshore partnership or corporation.

iv) Make payments of compensation for investment advisory and/or management services for the Pool.

v) Other responsibilities as determined by the Board.

2) Responsibilities of the Investment Advisory Committee

The Investment Advisory Committee (the "Committee") is responsible for monitoring the provisions of the Investment Implementation Strategy (Article XVIII). This responsibility includes the monitoring of investment strategy, of the hiring and firing of investment managers, custodians, and investment consultants; monitoring performance of the Pool on a regular basis (at least quarterly); and maintaining sufficient knowledge about the Pool and its managers to be reasonably assured of their compliance with the Investment Implementation Strategy (Article XVIII).

The Committee is chaired by the Vice President for Administrative Services, and it shall consist of six to ten members who are selected by the President of the University. The Committee shall have two members from the Board of Trustees and not less than two independent investment management professionals.

3) Responsibilities of the Investment Management Office

a) The responsibilities of the Investment Management Office may include, but are not limited to, the following:

i) Conduct due diligence searches for external investment consultant(s), investment manager(s), investments opportunities, and other fund administrators, and in consultation with the Committee, determine their engagement, continuation, or termination or any other matters pertaining to the benefit of the Pool and may be done in conjunction with the investment consultant as set forth in the Investment Implementation Strategy (Article XVIII).

ii) Serve as the primary contact for the Pool and manage the day-to-day operational activities, which include but limited to:

(1) Execute or direct investments as outlined in the Investment Implementation Strategy (Article XVIII) and as otherwise set forth in the Endowment Pool Investment Guidelines.

(2) In consultation with the Committee, outline investment strategies for implementing the asset allocation and provide oversight over the allocation and reallocation of assets in order to be in compliance with the targets and ranges as set forth in the Investment Implementation Strategy (Article XVIII).

(3) Oversight of all internal reporting pertaining to transactions for assets and income within the Pool so that Accounting may properly record the activity on the University's accounting statements.

iii) All necessary reporting to ensure compliance by University administration and by the investment consultant, investment manager(s), and other fund administrators within the relevant statutes, policies, guidelines, and strategies.

iv) Review Pool expenses to ensure only reasonable and necessary expenses are being g assessed and/or in conjunction with the investment consultant as necessary.

b) The Investment Management Office may be assisted by an investment consultant, and/or investment manager(s) in carrying out any of the responsibilities listed above and/or as set forth in the Investment Implementation Strategy (Article XVIII).

4) Responsibilities of Investment Consultant

a) Acknowledge in writing acceptance of fiduciary duty to the Pool and to exercise reasonable care under the standard of care defined in Article IV, Investment Guidelines**.** This list is not intended to be limited.

b) Communicate promptly with the Investment Management Office regarding all significant matters such as but not limited to:

i) Changes in the firm's ownership, organizational structure, or professional staffing (additions and departures),

ii) Changes to the firm's financial stability, solvency, legislative or regulatory oversight, and/or pending litigation proceedings,

iii) Changes to fee schedules,

iv) Any other changes of a substantive nature that may affect the firm's operations.

c) Provide an Investment Implementation Strategy (Article XVIII) that shall serve as a component statement of the Endowment Pool Investment Guidelines.

5) Responsibilities of Securities Custodian(s) for Separate Managed Accounts

a) Serve as custodian and act in a fiduciary capacity for the University and the Pool.

b) Acknowledge in writing the acceptance of a fiduciary duty to the Pool, to exercise reasonable care, and to comply with the terms of the delegation as defined in Article IV, Investment Guidelines.

c) Communicate promptly with the Investment Management Office and with the University's investment consultant regarding all significant matters such as but not limited to:

i) changes to the firm's ownership or organizational structure,

ii) changes to the firm's financial stability, solvency, legislative or regulatory oversight, and/or pending litigation proceedings,

iii) changes to fee schedules;

iv) any other changes of a substantive nature that may affect the firm's operations.

d) Provide safekeeping of securities entrusted to it, collect dividends and interest payments on held securities, make cash disbursements, and manage cash flows as directed by the Investment Management Office.

e) May lend securities owned by the Pool, but held in custody by another party, such as a bank custodian, only if such securities lending is pursuant to a separate written agreement.

f) Issue monthly statements that provide complete and accurate accounting records:

i) of security holdings and positions priced in accordance with industry standards;

ii) each asset transaction, including income and cash flows received from each investment manager.

g) Meet periodically with the Senior Investment Officer and/or staff, who include the University's investment consultant, to report on the separate investment account.

The foregoing list is not intended to be all inclusive.

VI. Conflicts of Interest

The University's officers, directors, employees, or members of the Committee that are involved with the investment of the Pool ("Access Persons") have a duty to be free of conflicting interests that might influence their decisions when representing the University. Consequently, as a general matter, the University's Access Persons are not permitted to maintain any conflict of interest with the University, and should make every effort to avoid even the appearance of any such conflict. A conflict of interest occurs when an individual's private interests interfere in any way – or even appear to interfere – with the University's interests as a whole. A conflict of interest can arise when an Access Person takes actions or has interests that may make it difficult to perform his or her assigned duties objectively and effectively, or when an Access Person or a member of his or her family receives any improper personal benefits as a result of his or her position with the University. Any Access Person who believes that he or she may have a potential conflict of interest must immediately report concerns to the appropriate University representative, mechanism, or process. This general prohibition on conflicts of interest includes (but is not limited to) the following:

1) The University's dealings with investment consultant, investment firm(s), investment fund(s), and others shall be based solely on what is in the University and Pool's best interest, without favor or preference to any third party, including close relatives; and

2) Access Persons who deal with or influence decisions of individuals or organizations seeking to do business with the University shall not own interests in or have other personal stakes in such organizations that might affect the decision-making process and/or the objectivity of such employee, unless expressly authorized in writing by the Board, and only after the interest or personal stake has been disclosed.

VII. Investment Objectives of the Pool

The University of Utah shall invest the Pool in accordance with prudent return and risk objectives. These objectives seek to achieve a total rate of return over a described time horizon which exceeds the rate of inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses, thus protecting the purchasing power of the assets and to solidify an investment program that offers a high probability of achieving the stated investment return objective while keeping the frequency and magnitude of temporary declines at acceptable levels. These objectives are set forth in the Investment Implementation Strategy (Article XVIII). Pursuant to Articles XII &XIII, the Investment Implementation Strategy shall be reviewed periodically.

VIII. Eligible Pool Investments

The following shall be considered eligible Pool investments. This list is not intended to be exhaustive and shall be subject to review on an ongoing basis. Eligible pool investments may be further outlined in the Investment Implementation Strategy (Article XVII). Eligible Pool Investments include:

Global marketable equities: shall be diversified and readily marketable across a spectrum of small, medium, and large market capitalizations by - issue, industry, and sector as well as diversified across multiple regions, including the United States, developed foreign and emerging markets, as all may be further described in the Investment Implementation Strategy (Article XVIII).

Global marketable fixed income holdings: should be diversified by country, issue, sector, coupon, and quality and should be readily marketable and can include both investment grade and non-investment grade securities as all may be further described in the Investment Implementation Strategy (Article XVIII).

Alternative investment funds: that derive returns primarily from marketable and non-marketable assets such as, high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, public and private real estate assets or absolute return and long/short hedge funds (each an “Alternative Investment Fund”) and other diversifying strategies as may be further described in the Investment Implementation Strategy (Article XVIII). The foregoing list is not intended to be all inclusive.

1. Alternative investments shall be measured against appropriate benchmarks, universes and/or expected rates of return. Asset allocation targets and ranges as set forth in the Investment Implementation Strategy (Article XVIII) will guide the long-term investment activities for the Pool.

2. Due Diligence Criteria for Alternative Investment Funds shall be as stated in Article XII, Section 1, Due Diligence Criteria.

Use of commingled funds (e.g., mutual funds; bank trust funds), domestic and offshore partnerships and corporations, and separate account agreements, which meet the general intent of the Investment Implementation Strategy (Article XVIII), may be utilized by the Pool.

Equity and fixed income managers may invest in short term commercial paper, money-market mutual funds, other money market investments, and short term bond investments as a surrogate for cash reserves from time-to-time. The intent is to have the investment manager remain fully invested at all times. Cash is not considered to be a strategic asset.

Due to the changing nature of investment opportunities, any other parameters or special investment opportunities may necessitate the amending of the Endowment Pool Investment Guidelines including the Investment Implementation Strategy (Article XVIII). Approval of the Board of Trustee prior to amending may be deemed appropriate.

IX. . Asset Allocation

Asset allocation targets and ranges as set forth in the Investment Implementation Strategy (Article XVIII) will outline the long-term investment activities for the Pool.

Senior Investment Officers, with the advice of the Committee, will manage the asset allocation mix within the target allocations and allocation ranges. It is expected that the asset allocation mix will be diversified among asset classes and be designed to meet the rate of return and risk objectives of the Pool as set forth in the Investment Implementation Strategy (Article XVIII).

Rebalancing:

a) The actual allocation percentages may vary before rebalancing is necessary to comply with the asset allocation targets.

b) Senior Investment Offices and the Committee shall review the Pool's asset allocations on a regular basis and determine the weighting and rebalancing parameters for allocation to investment strategies and shall be described in the Investment Implementation Strategy (Article XVIII). Advice from the investment consultant regarding asset allocation strategies may also be considered.

X. Pool Risk Tolerance

Based on the University's understanding of capital market risk, the following guiding principles and measures shall be followed to control undue portfolio volatility in the Pool:

1) The University recognizes that the primary fiduciary obligation regarding the Pool is to prudently invest the portfolio to meet investment objectives that will fulfill the purpose of the Pool as described in Article I.

2) The University fully recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns.

3) Assets of the Pool are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility.

4) Diversification of assets is to be achieved by:

    a) allocating monies to various asset classes and investment styles within asset classes;
    b) retaining investment management firm(s) with complementary investment philosophies, styles and approaches.

XI. Performance Evaluation and Review Process for the Pool

Senior Investment Officers and the Committee will evaluate the Pool's investment performance on a periodic basis which shall include, but not be limited to, the following:

1) The overall Pool's performance and each investment manager's performance to determine whether the Pools' objectives are being met.

2) The Pool's asset allocation mix relative to its Investment Implementation Strategy (Article XVIII) and capital markets outlook.

3) The risk and return profile(s) of the Pool and each investment manager to determine whether the Pool's goals and objectives are being met.

4) The extent to how each investment manager has managed their portfolio consistent within that manager's stated investment philosophy and style.

5) Each investment manager's adherence to these guidelines.

6) A reasonable full market cycle time horizon for evaluating the Pool's investment performance shall be on a long term basis as more specifically described in the Investment Implementation Strategy (Article XVIII).

XII. External Investment Manager Search and Evaluation

1) Due Diligence Criteria

The Investment Management Office and the investment consultant shall consider the following minimum criteria as part of the due diligence process for selecting an external investment manager.

a) Investment experience and integrity of the investment management team.

b) Stability of the investment management organization.

c) Fit within the investment strategy for the Pool.

d) Focused investment strategy with demonstrated process of implementation.

e) Performance relative to peer group and to assumed risk.

f) Investment vehicle structure including:

i) Expense ratios or fees

ii) Inception date of product

iii) Total assets in product

2) External Investment Manager Evaluation

Time frames for evaluating the qualitative and quantitative performance measures of investment managers should approximate a determined market cycle. Senior Investment Officers and the Committee will evaluate the Pool's investment managers on a periodic basis as may be further described in the Investment Implementation Strategy (Article XVIII). This may be done in conjunction with the investment consultant.

Managers will be evaluated based upon accepted industry standards and the criteria for which they were hired.

XIII. Review of Endowment Pool Investment Guidelines

Senior Investment Officers and the Committee will review the Endowment Pool Investment Guidelines, including the Investment Implementation Strategy (Article XVIII), periodically to determine that it continues to be appropriate in view of changes within State and Federal regulations, the University, the Pool, and capital markets.

XIV. Internal Controls and Audits

1) The University shall establish a system of internal controls, which shall be evaluated annually by the University's internal auditors and/or by independent auditors. The controls shall be designed to prevent losses of funds from fraud, employee error, or misrepresentation by third parties or by university employees and officers.

2) The President shall arrange for an audit of the University's annual report, conducted by either the resident auditors or the Regents' audit staff. The audits shall be conducted in accordance with applicable generally accepted auditing standards for regulatory or prescribed format reports. Reports shall include the auditors' comments based on their examination of investment policy and procedures, the process, the accounting records, and the safekeeping methods.

XV. Reporting to Board of Trustees and to the State Board of Regents

1) In establishing reports for its Board of Trustees, the University shall implement the following:

    a) All reports shall include the Chief Investment Officer's assertion that, to the best of his/her knowledge, the institution is in compliance with UPMIFA.

    b) The Chief Investment Officer shall submit monthly investment reports to the Board within 45 days of the month's end. In addition, the Chief Investment Officer shall submit quarterly performance reports to the Board within 60 days of the quarter's end.

    c) Within 30 days of the Board's approval, the University shall submit to the Board of Regents a copy of the investment reports submitted to the Board. Reports submitted to the Board of Regents shall be accompanied by a transmittal letter to the Commissioner indicating that the President of the University of Utah has reviewed the reports.

Annually, the Senior Investment Officers shall make a presentation to the Board of Trustees. Such presentation shall include a discussion of the investments and the current and past performance of the Pool, and may be followed up with a question and answer period. The investment consultant may also be invited to participate in the presentation as determined by the Senior Investment Officers.

XVI. . Annual Money Management Report

Annually, the University shall submit, on forms provided by the Commissioner of Higher Education, a summary report of its money management activities for the year. This report shall include an auditor's opinion (as provided in section 4.11 of Regents Policy R541) regarding: the fairness of presentation of the report in accordance with generally accepted accounting principles, UPMIFA, and these guidelines. Draft reports shall be submitted to the Commissioner's Office not later than October 15 of each year. Final reports including the auditor's opinion shall be submitted not later than November 30 of each year.

XVII. Managing Institutional Funds of Other Institutions of Higher Education

Nothing in these guidelines shall restrict the ability of the University to manage endowed funds for other institutions of higher education. In delegating all investment management functions to the University of Utah, the other institution's Board of Trustees shall maintain their fiduciary responsibility for the funds. The terms of any such agreement between the University and other institutions shall govern and should clearly layout the expectations of each party, especially with regard to fees and reporting. The funds shall be managed in accordance with these guidelines and all other governing laws and regulations (such as UPMIFA).

Excerpted and based upon the Utah Uniform Trust Code (Utah Code 75-7-814(2))
Modified from the Uniform Prudent Investor Act § 7.

XVIII. Strategies

Endowment Pool Investment Implementation Strategy